

Salisbury, North Carolina
May 7, 2019

SPECIAL MEETING

PRESENT: Mayor Al Heggins Presiding; Mayor Pro Tem David Post; Council Members Karen Alexander, William Brian Miller and Tamara Sheffield; City Manager W. Lane Bailey; City Clerk Diane Gilmore, and City Attorney J. Graham Corriher.

ABSENT: None.

Salisbury City Council met in Council Chambers in City Hall located at 217 South Main Street. The meeting was called to order by Mayor Heggins at 1:00 p.m.

CAPITAL IMPROVEMENT PLAN

City Manager Lane Bailey stated the coming year's budget is extremely challenging. He noted the addition of positions and salary adjustments combined with less than anticipated increases in revenue have contributed to the City's budget challenges. He introduced WR-Martin Management Consultant Denny Martin who is assisting with the Capital Improvement Plan (CIP) for the City's General Fund and Salisbury-Rowan Utilities (SRU) Fund.

(a) General Fund

Mr. Martin explained the goal is to update last year's Capital Improvement Plan (CIP) regarding projects that are complete or to revise the cost and scheduling of projects that are incomplete. He added it is important to note when projects will be implemented in the CIP 10-year time frame.

Mr. Martin noted staff has worked to bring high priority and mandated projects to Council and to address asset management issues relating to existing infrastructure that is in need of rehabilitation or replacement. He referenced CIP categories related to updating and replacing

HVAC, roofing, and other items that recognize the age of infrastructure and address issues critical to sustaining facilities.

Mr. Martin reviewed the format of the CIP, and he pointed out the capital improvements listed are considered essential. He noted the CIP begins with the current fiscal year and extends 10 years to FY 2029. He explained CIP projects are paid for in the year that is shown in the CIP. He pointed out many of the projects are reoccurring capital projects such as HVAC and roof replacements that are not financed. He indicated the projects that are noted in color are typically financed with debt due to the magnitude of the project. He stated projects that are highlighted under the column funding source include a combination of local capital, grant, and other resources. He emphasized the City is looking at a \$61 million CIP and over half of it is new debt. He explained two of the projects are fire stations including \$4.5 million for Fire Station 6 in the current year project and \$6.75 million for Fire Station 3 included in year two. He noted the cost for Fire Station 6 needs to be reviewed to take inflation into consideration.

Mr. Martin pointed out inflation is a factor in the CIP and across the country the cost for infrastructure is drastically increasing. He noted the last two debt packages include the Main Street Infrastructure Replacement Program which is estimated to cost \$20 million and is the largest project listed on the CIP. He explained the project is divided into two phases based on cash flow, scope, and the estimated cost of the project. He indicated the project is not completely vetted and needs a master plan that addresses the scope and scheduling of the project. He noted the cash flow issue can be solved by phasing the financing or financing the project with general obligation bonds. He suggested having a detailed strategy before the project is launched.

Mr. Bailey stated the Empire Hotel project was taken into consideration during planning for the Main Street Infrastructure Plan. He agreed with Mr. Martin that the master plan needs to be updated, and he pointed out the foot print of the area should also be considered. He suggested the master plan include The Depot area so all of the City's transportation issues are considered.

Mayor Heggins asked about the status of the master plan. Mr. Bailey noted Downtown Salisbury, Inc. (DSI) has completed a master plan in the past, but it will need to be updated with a concentration on downtown infrastructure. He noted staff has considered what has been done in other communities, and he commented Goldsboro is one of the first Transportation Investment Generating Economic Recovery (TIGER) Discretionary Grant communities. He added Lexington recently approved a \$10 million plan for the total downtown area, and he pointed out Lexington's downtown footprint is smaller than the City's. Mayor Heggins asked if a consultant would be part of the City's updated master plan. Mr. Bailey explained there are different types of plans, and he suggested staff reach out to the people who are revising the master plan to address potential uses for some of the buildings to make sure the infrastructure fits the intended use. He indicated parking would be an issue, and he noted a downtown parking study is being completed. He commented staff has reached out to the County and is interviewing community members regarding parking needs in the City. He added the consultant will be on site at the Cheerwine Festival to interview citizens regarding downtown parking needs.

Mr. Bailey noted Council may have been approached regarding Bell Tower Green and streetscape improvements around the proposed park. He suggested combining the Main Street Study and a road diet for South Main Street regarding the reduction of travel lanes and how it would look.

Mr. Martin pointed out it is important to include a financial component in the master plan to determine how to finance the City's share and to determine what resources are available to help pay for the improvements. He added the assumption is that the City will complete the project through the issuance of two \$10 million debts that are two years apart. He indicated additional phases may be needed to spread the debt over a longer period of time. He explained the last four years of the CIP do not have any debt projects. He pointed out the capital outlay is relatively uniform throughout the period and the major debt is happening in the first five years. He stated the project represents one-third of the total CIP. He added the total CIP is \$61 million and Main Street Infrastructure Replacement Program is \$20 million. He pointed out the cost estimate may need to be updated.

Mr. Martin noted the remaining half of the CIP is a combination of \$12.8 million in outside funding for projects and approximately \$16.7 million in annual capital outlay. He indicated the CIP will evolve annually, and he added staff has done a very good job with CIP funding for the current fiscal year.

Mr. Bailey noted the West End transformation and housing stabilization numbers were extended and City Park Lake was added to the CIP and is funded through the Fund Balance. Finance Director Shannon Moore noted the only other item that was added to the adopted CIP was the South Long Street traffic calming project for \$85,000 that coincides with North Carolina Department of Transportation (NCDOT) revisions.

Mr. Bailey stated the City received complaints last summer regarding dredging at the City Park Lake, and he noted there are also structural concerns with the dam. He pointed out both issues need to be addressed.

Mayor Pro Tem Post asked for clarification regarding Fire Station 6. He noted Fire Station 6 was projected to cost \$6 million and it appears to be running over by \$4.45 million. He asked if the City still needs to spend \$4.45 million to finish Fire Station 6. Ms. Moore explained the project was debt financed at \$7.5 million. She noted the City made the first payment in March 2019 and another payment will be made September 2019. She added the debt is not included because the final payment information was not available when the updates were made. She noted other than the fire station the City has not issued any new debt.

Mayor Pro Tem Post pointed out the CIP addresses money the City is going to spend and not the funding source. Ms. Moore agreed. Mr. Post clarified \$4.45 million is the amount of the \$7.5 million total cost for Fire Station 6 that the City still needs to spend to finish the project. Ms. Moore agreed. She added there will be \$4.5 to \$5 million remaining debt on Fire Station 6. Mr. Post noted the \$4.45 million for Fire Station 6 included on the CIP may be low. Ms. Moore agreed, and she explained when Council approved the debt \$7.5 million was financed.

Mayor Pro Tem Post noted Fire Station 3, which will be located on Mahaley Avenue, was originally estimated at \$6 million and is now estimated at \$6.75 million. Ms. Moore noted the debt was originally listed in the CIP for \$4 million because it is a smaller fire station with fewer bays. She noted the totals are based on the \$6.7 million estimate provided by Architect Bill Burgin based on the square footage of Fire Station 6.

Councilmember Alexander stated according to the CIP Fire Station 6 is \$4.45 million and Fire Station 6 is \$6.7 million. Mr. Post clarified the City has spent approximately \$3 million on Fire Station 6 to purchase the land and begin construction. He added approximately \$4.5 million is needed to complete the project. Ms. Moore agreed, and she pointed out it is the approximate figure needed to complete Fire Station 6. Ms. Alexander asked if there is a way to reconcile the total so the public is aware of the total cost of the fire stations. Mr. Martin stated Fiscal Year 2018 could be added to the CIP to better reflect the total cost of the fire stations.

Mayor Pro Tem Post pointed out Fire Station 3 will currently cost \$6.5 million and the threat of additional tariffs could increase the cost. Mr. Bailey commented he does not think tariffs have driven immediate construction costs, and he indicated the costs are driven by storms over the last two years and economic growth. He added he understands Mr. Post's point regarding inflation, but he explained spreading the cost out helps deal with the issue of available fund balance. He cautioned if the City is too aggressive it could impact the fund balance going forward. Ms. Alexander pointed out the cost for the fire stations has risen by approximately 35%. Councilmember Sheffield asked if that explains the \$1.25 million increase from the CIP Council received in August 2018. Mr. Martin agreed. Ms. Sheffield pointed out \$5.5 million was listed for Fire Station 3 in August 2018 and approximately \$400,000 had been spent to acquire the land. Ms. Moore clarified \$6.75 million is projected to be the total cost for Fire Station 3. Ms. Sheffield noted \$6.75 million is the total cost and includes the land purchase and funds that have already been spent. Ms. Moore stated staff just closed on the last piece of property for Fire Station 3 in January 2019.

Councilmember Alexander stated \$6.75 million should cover the total cost for Fire Station 3. Ms. Moore stated she would verify the cost is all-inclusive. Ms. Sheffield pointed out the total cost is through the current date and the projected completion date is 2021. Mr. Miller suggested a footnote stating dollar amounts are based on a certain date. Mr. Martin indicated the number could be inflated. Mr. Miller pointed out inflating the costs would not change reality. Mr. Martin agreed.

Councilmember Miller indicated Fire Station 3 will be completed after Fire Station 6, and he noted the imminent settlement threat to the existing Fire Station 3. He pointed out the new Fire Station 3 is scheduled to be completed in two years and when the money is borrowed it is approximately 18 months or longer before the fire station is operational. Mr. Martin indicated the number in the CIP reflects the estimate for the first debt service payment. He explained it is conventional financing and the debt service is arranged in six month payments.

Mr. Bailey noted the City will have to bid the fire station and present the bids to the Local Government Commission (LGC) and then solicit bids for the financing. Mr. Miller asked how imminent the threat to Fire Station 3 is and if it can be pushed out for another year. Mr. Bailey

noted the condition of the fire station is monitored on a regular basis. He indicated if needed Fire Chief Bob Parnell would come up with an alternate plan for temporary sleeping quarters in another building as close to the current fire station as possible. Mr. Miller commented the City is challenged in the current budget cycle and in the next five years. He noted if the construction of the fire station can be pushed out another year it would provide the City some relief. Mr. Martin agreed.

Chief Parnell noted a study was conducted on the footing and earth beneath the building and it did not receive a favorable report. He clarified there is a report that states the fire station was built on substandard soil and the deterioration is expected to continue. Mr. Miller noted the condition of Fire Station 3 has been talked about for the last five years, and he asked if the study was over five years old. Chief Parnell agreed. Mr. Miller asked if there would be any value to updating the study. Mr. Bailey stated the study could be updated. Mr. Miller clarified he would like to update the study provided it is cost effective. Mr. Bailey stated staff will speak with Architect Bill Burgin to see if the geologists who are being used for Fire Station 6 could update the report for Fire Station 3.

Councilmember Sheffield pointed out the cost of Fire Station 3 increased by approximately \$1.1 million from August 2018 to May 2019, and she indicated the longer the project is delayed the more expensive the fire station will be. Ms. Alexander asked if any other project could be put on hold or switch places to complete Fire Station 3. Mr. Post noted the downtown project will not be started until the fire stations are complete.

Councilmember Miller explained one of the reasons he supported Fire Station 6 was the potential expansion of a large company in the area. Mr. Bailey noted one of the two proposed expansions is happening and the other is on hold. He added the City is moving its hazmat operation to Fire Station 6, and he commented the City provides hazmat service for the entire county. He stated the new fire station will enhance the Fire Department's response time.

Councilmember Miller pointed out additional revenues would be created by the two proposed expansions, and he asked if it would provide relief for the City in the next few years. Mr. Bailey noted it would be part of the consideration regarding the 1% per year tax growth in the property tax projections. Ms. Alexander stated a company in the district of Fire Station 6 relocated to Concord and the City lost property, sales, and real estate taxes.

Councilmember Sheffield noted the Housing Stabilization Program is scheduled to end in 2020, and she asked if there are plans to extend the program. Mr. Bailey stated the West End Transformation Plan was extended and the Housing Stabilization Plan is scheduled to end in 2020 but can be expanded if it is the wish of Council.

Councilmember Alexander asked for clarification regarding \$400,000 per year for the West End Transformation Plan. Ms. Moore explained it is a grant program that the Community Development Corporation (CDC) administers which includes City, private, and Community Development Block Grant (CDBG) funds. She pointed out this is the first year of the West End Transformation Housing Program, and the City contributes \$400,000 annually to the program.

Mr. Martin stated the \$20 million Main Street Program includes flexibility regarding when and how the project is completed. He added the objective is to reduce the CIP to essential projects. Mr. Miller noted the Main Street Revitalization requires a determined plan and a scope before the City can apply for grants. He asked if there is a way to factor in planning dollars for the project and push it out knowing if a grant opportunity arises the project will be reconsidered. He added he is an advocate for downtown revitalization, but with personnel increases and other projects, a tax increase would be necessary for the next five years. Mr. Bailey stated at the end of the 10-year period the downtown would have approximately \$.05 effect on the property tax rate.

Councilmember Miller asked if moving the downtown revitalization out would be to the City's benefit or detriment. Mr. Bailey clarified if downtown revitalization was not included in the CIP there would be approximately a \$.05 lower tax rate at the end of the ten year period. He added planning dollars might be a better way of doing proceeding while pushing the project out a little further. He noted there will be pressure from Bell Tower Green Park representatives who have already requested work around the park. He indicated \$10 million has been raised and a contribution has been requested from the City.

Mr. Bailey pointed out the Empire Hotel will also have an effect on downtown revitalization and will most likely need sidewalk improvements in front of the building which should be a minimal cost. He indicated whatever is completed will need to tie in with the future of South Main Street, and planning dollars for the project would be wisely spent. Ms. Alexander suggested starting with planning dollars and pushing the project forward.

Mr. Martin stated whatever debt is incurred for Main Street will be on the books for 15 to 25 years. Ms. Alexander indicated hiring a company to work with the City regarding infrastructure could possibly bring federal funding to the project and reduce the cost to the City. Mr. Bailey pointed out securing federal funding for this project could be challenging. He added many communities have requested federal funding but Goldsboro is the only community to receive it. Mr. Martin recommended completing enough preliminary planning to understand the basis of the cost estimates. Mr. Miller suggested allocating money for planning and infrastructure around the park and pushing out the rest of the project subject to grant opportunities. He commented \$10 million has been raised privately and a \$1 million to \$1.5 million contribution is a great deal for the City.

Councilmember Miller added he does not feel comfortable raising taxes every year for the next seven to 10 years based on current decisions. Ms. Alexander agreed with Mr. Miller. Mr. Martin noted many things are taking place in the federal and state government and there will be opportunities that cannot be evaluated based on existing information.

Mr. Martin pointed out the \$20 million for Main Street revitalization would not be spent in one year, and he suggested devising a plan that would include two or more phases. He noted it is important to implement the plan in a way that does not damage downtown and negatively impact existing businesses. Ms. Alexander suggested determining the infrastructure needs of the park. She stated the community has made a substantial investment in the park bids have been sent out, and construction will soon begin. She explained because of the investment from the community the City should focus on the park and wait on other projects. Mr. Martin noted the City does not

know the scope that the \$20 million estimate for Main Street revitalization is based on. He pointed out some of the infrastructure need may come from other funds such as Water, Sewer and Stormwater and the debt service payment may be prorated.

Councilmember Alexander stated when construction begins on the Empire Hotel project other companies may invest in the downtown creating additional tax revenue. She commented a balance is needed between what is being spent and what is being brought in. Mr. Miller suggested using planning dollars to complete the master plan and seek clarification regarding the City's contribution and pushing other projects back.

Mayor Pro Tem Post cautioned Council the project will not start for three years and if it is pushed out the focus could be lost. He noted the project is not currently impacting tax rates, but it may affect tax rates in three to four years. Ms. Alexander stated Council needs the scope of what is needed to support the park because the community has already made a substantial investment. Mr. Post agreed with Ms. Alexander. Mr. Bailey pointed out some of the scope will be included in the streetscape the City is currently working on.

City Engineer Wendy Brindle explained the City hired a consultant to provide a scope of services in a 10-block section of Main Street to coincide with NCDOT resurfacing. She noted the consultant will phase its recommendations to coincide with the resurfacing of Main Street which will take place next year to include curb outlook and small improvements to intersections that can be easily implemented. She explained the second phase of the plan would be to develop something that could be used to apply for grants for a Main Street project. She added staff is still working with the consultant regarding the level of plan needed to be competitive regarding the grants and to decide what can be completed with the funds currently available. She added additional funds may be needed to connect the plan with the DSI Master Plan and to look at underground infrastructure. She explained the process began due to the impending NCDOT resurfacing project. Mr. Miller asked if any changes were anticipated to the cross-section. Ms. Brindle noted she would anticipate some changes, but it will be left to the consultant who will use input gathered from the community and the evaluation of traffic in the area.

Mayor Heggins asked about the age of the DSI Master Plan and if City staff participated in developing the plan. Ms. Alexander stated the plan is 10 years old. Mr. Miller indicated staff participated in the plan development, but those staff members may no longer work for the City. Mayor Heggins noted a parking study is currently being conducted and the streetscape plan for the resurfacing of Main Street will also take place. Ms. Brindle noted staff is in negotiation with a consultant regarding the streetscape plan. She noted the consultant is aware of the parking study that should be completed in July and will work to incorporate the parking study into the streetscape plan.

Councilmember Alexander asked if the events taking place at the Depot and between NCDOT will be included in the plans. Ms. Brindle explained the work at the Depot is a Transportation Improvement Program (TIP) Project that is being handled through the NCDOT Rail Division, but it needs to be considered with downtown planning. She indicated staff is waiting on feedback from NCDOT regarding the schedule of the project. Mr. Bailey asked about the discussion regarding converting Depot Street into a one-way street so transit buses could stop

directly in front of the Depot. Ms. Alexander stated the one-way street would also improve parking and convenience in the area. Ms. Brindle noted the possibility of converting Depot Street to a one-way street near the Depot has been considered by City staff and the NCDOT Rail Division, but it is separate from the platform project. She explained funds been identified in the upcoming State Transportation Improvement Program (STIP) for improvements around the Depot. She indicated the City's parking consultant is aware of the plan, but the plan has not been officially adopted by NCDOT Rail Division.

Mayor Heggins noted the City needs someone to help connect the individual plans to create a comprehensive plan for downtown. Mr. Bailey noted Ms. Brindle, DSI Director Larissa Harper and Planning Director Hannah Jacobson are working together to coordinate and share information. Mr. Bailey clarified the firm that is being considered for the streetscape is familiar with the parking study.

Mayor Heggins stated a facilitator is needed to make sure the plans are connected and the specific projects are completed in a way that is fluid and seamless. Mr. Post agreed, and he stated a grant administrator may need to be considered to tie the loose ends together.

Ms. Alexander asked for clarification regarding the Fibrant charges which seem to be decreasing. Ms. Moore explained in the current year the City budgeted \$3 million from the General Fund to support the Fibrant Fund. Ms. Alexander asked if the number is after the City receives revenue from Hotwire Communications. Mr. Bailey agreed. Ms. Moore noted next year's number is projected to decrease to \$2.4 million and the debt will continue to decrease until it rolls off in Fiscal Year 2029. Mr. Bailey explained after 2029 there will be no Fibrant debt service expense.

Mayor Pro Tem Post noted Fiscal Year 2019 includes a General Fund charge of \$2.9 million to support the Fibrant Fund and the number decreases in Fiscal Year 2020 to \$2.4 million. He asked if the decrease takes into consideration any income the City may receive from Hotwire Communications in 2019. Ms. Moore noted in 2019 the City will need the full \$3 million that was budgeted due to expenses covered by the City. Mr. Post questioned if the 2020 projection estimates \$400,000 being received from Hotwire Communications. Mr. Bailey stated approximately \$600,000 is projected to be received from Hotwire Communication in 2020.

Mayor Pro Tem Post pointed out the City will need approximately \$3 million annually if it does not receive a contribution from Hotwire Communication and if it receives the projected \$600,000 the City will need to contribute approximately \$2.4 million. Mr. Bailey indicated the City will need slightly less than \$3 million, and he noted the City is making a \$300,000 payment from the Fibrant Fund to SRU for the enterprise loan. He indicated the \$300,000 loan payment is scheduled for the next 10 years of the CIP. Ms. Moore commented inter fund interest is also being paid. Mr. Post asked if the \$300,000 payment is included in the \$2.4 million. Mr. Bailey stated the \$2.4 million shows what the General Fund is having to do to support Fibrant and the debt service. Ms. Moore pointed out Fiscal Year 2019 includes three quarters of revenue from Hotwire Communications since the lease began on September 21, 2018 and next year will include the first full year of Hotwire contributions.

Councilmember Sheffield asked how long the City has to repay the \$300,000 debt to the Water Sewer Fund for Fibrant. Mr. Bailey noted the debt will go beyond year 11. Ms. Moore stated the outstanding debt to the Water Sewer Fund is approximately \$7 million. Ms. Alexander indicated it will take approximately 20 years to pay off the debt. Mr. Bailey agreed, and he explained only 10 years is shown on the CIP. Ms. Moore commented the debt for Fibrant Broadband would be retired in Fiscal Year 2029, year 11 of the CIP, and in Fiscal Year 2030 the debt payment could be increased to repay the Fibrant inter fund loan from the Water Sewer Fund.

Councilmember Alexander asked if Hotwire Communications has provided projections regarding their contribution and if it will increase. Ms. Moore noted minimum payments are included in the lease. Mr. Bailey stated the City will not have to pay for the capital improvements that have to be made and there are other benefits regarding the lease with Hotwire Communications that cannot be shown in a spread sheet. He added Hotwire has made significant capital improvements at their expense.

Mayor Heggins asked if any numbers are available regarding customer recruitment or retention. Mr. Bailey noted the information will be presented in the quarterly financial reports. Mayor Heggins asked how the customer base impacts the CIP. Mr. Bailey noted an increased customer base will positively impact the CIP. Mr. Miller explained there are minimum lease payments and the City has an opportunity to share in any gains above certain thresholds. He pointed out there is opportunity for the numbers to improve if the growth in subscribership is better than projected. Mr. Bailey agreed.

Mayor Heggins asked what the City is doing to maintain the customer base. Mr. Miller explained when the City leased the broadband system to Hotwire Communications it also leased the operational responsibility of the system to the company. Mr. Bailey noted the best way to help is to subscribe to Hotwire Communications.

Mayor Pro Tem Post pointed out Fibrant made money on internet, lost money on television, and received a minimal profit on telephone service. He noted Hotwire is getting away from the services that Fibrant was losing money on.

Mayor Heggins questioned the legal parameters regarding recruiting and asked how the City can help to grow the customer base. Mr. Bailey stated the best thing to do is speak positively about Hotwire and to promote it when the opportunity arises. He added subscribing to Hot Wire reduces the tax burden on the community. Mayor Heggins asked what the City is doing to make sure customers are retained. Mr. Bailey added it is Hotwire's responsibility, and he noted customer complaints are passed on to the company. Mayor Heggins then asked about the feedback Hotwire is providing to the City. Mr. Bailey noted Hotwire has been responsive to the issues that are presented to the company. Mayor Heggins asked if Hotwire is providing any additional feedback regarding customer retention. Mr. Miller pointed out the lease includes service level standards that Hotwire Communications is required to meet and so far it has exceeded the standards and has been quick and through to respond to problems. He indicated the City's promotion of the utility is limited by state law and the Level Playing Field Act.

Councilmember Alexander asked if the Ketner corner property has been sold. Mr. Post noted the property has been sold. Mr. Bailey stated the money included in the CIP is to recognize Food Lion and its contribution to the City. Mr. Miller stated the money could be allocated somewhere else. Mr. Bailey agreed. Mayor Heggins asked if it will take the total allocated to recognize Food Lion. Mr. Bailey explained the plan is to do something significant to recognize Food Lion where Store 1 is located. He added Food Lion's Corporate Headquarters is located in the City, and Food Lion is the City's largest employer. He pointed out he has spoken to County Manager Aaron Church regarding the County possibly participating in the recognition.

Ms. Moore noted Ms. Alexander asked about the West End Transformation Plan earlier in the meeting. She stated Former Planning Director Janet Gapen provided a description of the project in last year's budget documents. She noted the goal is to focus on the West End Neighborhood to improve housing and neighborhood conditions by offering homeowners in the pilot area an opportunity to be eligible for deferred loans to be used for exterior rehabilitation. Mr. Bailey explained there is a \$140,000 combined contribution from the Robertson Foundation and Stanback funding. Ms. Alexander stated the \$400,000 annually is a combination of City and outside funding. Mr. Bailey explained \$40,000 is from the Robertson Foundation and \$100,000 is from the Stanback Foundation. Mr. Moore stated the outside funding is in addition to the \$400,000 included in the City's CIP. She pointed out Fiscal Year 2019 was the first year money for the West End Transformation Plan was included in the CIP, and it has been carried out for an additional five years. Mr. Martin stated money in the CIP is only City funding. Ms. Alexander asked if the \$400,000 includes CDBG funding. Mr. Moore explained the money in the CIP is in addition to any federal funding the City receives.

(b) Salisbury-Rowan Utilities CIP

WR-Martin Management Consultant Denny Martin and Salisbury-Rowan Utilities (SRU) Director Jim Behmer addressed Council regarding the SRU Capital Improvement Plan (CIP). Mr. Behmer referenced the capital improvement projects that are taking place, and he noted updated numbers for the River Pump Station design and construction are based on ongoing conversations with Cube Hydro. He noted the River Pump Station project is being pushed out to Fiscal Year 2022. He indicated filter updates were conducted at the Water Treatment Plant and it was determined that filter upgrades would be needed. He pointed out \$4 million for filter upgrades and residuals handling is proposed for capital projects. He added the residuals handling would improve efficiency.

Mr. Behmer explained it has been a difficult year for wastewater treatment due to record rainfall. He noted deficiencies were found in the sewer system and staff is constantly working to increase the money invested in inflow and infiltration reduction to prevent sanitary sewer overflows. He indicated two major capital improvement projects are being proposed on the wastewater treatment side. He explained the grant creek project to move the influent pump station out of the flood area and upgrading it is approximately 90% designed with a current estimate of \$16.9 million. He commented funding for the project is listed in three years and included in the debt service package for the coming fiscal year.

Mr. Behmer pointed out the smart meter project has been completed and staff is starting to see increased efficiencies. He added staff is working with the state and the City's stakeholders regarding wastewater nutrient removal. He noted staff has submitted the five-year permit renewal for the Waste Water Treatment Plant and is waiting on approval from the state.

Councilmember Miller asked if the water the City puts back in the Yadkin River is cleaner than the water that is taken out. Mr. Behmer stated the water is cleaner and that is why it costs more to treat. He explained it is easier to treat the sediment in the Yadkin River on the water side, and he pointed out treating wastewater is more expensive. He noted the City has an ample water supply and water treatment capacity, but sewer has been the challenge during the current year. Mr. Martin explained the mandated minimum standards for wastewater evolve much faster than water because of the surface water quality issues.

Mayor Pro Tem Post referenced the raw water intake, pump station construction and design, and reservoir which totals approximately \$25 million. Mr. Behmer explained it is an approximately \$20 million project to move the river pump station. Mr. Post pointed out there is also a \$17 million project with the wastewater treatment station. Mr. Behmer agreed, and he indicated those are the two major capital improvement projects for SRU. He stated staff is proceeding with the wastewater treatment project which is at 90% design on the wastewater treatment side. He explained because of the ongoing dispute with Cube Hydro on the water side, the City is looking at having to move forward with a design at some point.

Mr. Post pointed out the two debt packages are included in years four and five, and he questioned where the money will come from. Mr. Martin explained with the larger projects the City will probably borrow from the state revolving loan fund. Mr. Post stated the cash is for design work and paid for out of current operating dollars. Mr. Behmer agreed. Mr. Martin added it is preliminary cost, but may include land acquisition and other things.

Mayor Heggins noted the Grant Creek Wastewater Treatment Plant will be completed at one time rather than in phases. Mr. Behmer explained the construction will take place over three fiscal years, and the City will borrow the majority of the money upfront to lock in a lower interest rate. Mr. Martin noted the project may be in multiple construction contracts depending on the design but it would be one debt. Councilmember Alexander asked if it is like a credit line where interest is charged as the money is used. Mr. Martin stated the entire amount is borrowed and interest is earned on what is not being used.

Councilmember Miller asked about a debt schedule, and he clarified he is looking for an overall debt burden table where debts roll off and is replaced by new debt. A debt summary table was presented to Council.

Mayor Heggins referenced the pump station design and construction, and she asked when the funds for the project need to be included in the budget. Mr. Behmer explained the numbers were updated after discussions with Cube Hydro took place this year. He added the current cost estimate is the most conservative number, and it does not impact the proposed budget.

Mr. Behmer noted until the state imposes the nutrient limits the City has different thresholds regarding what it can do. Mayor Heggins stated staff needs to address the water pump station issue as soon as possible and start putting money towards addressing the issue. Mr. Bailey noted until the legal dispute is resolved it is best not to do that. He added it will be harder to get the money if the City has already spent it to fix the problem. Mayor Heggins stated the City will be reactive instead of proactive and she does not want to be in a fragile state when weather situations arise. She added there is no guarantee the legal issues will be worked out and the fragile state of the pump station needs to be addressed. Mr. Behmer pointed out staff has been heavily engaged with numerous consultants and the state this past year.

Councilmember Alexander asked if the state understands the risk and costs for the community. Mr. Behmer explained the environmental counsel is not here but if damages occur the City is entitled to submit a claim. He commented forecasting the events has been a challenge. Mr. Miller added the opponent in the process is hoping the City will take care of the situation. Mr. Bailey suggested having the outside counsel provide an update in the near future. Mayor Heggins requested the update before voting on the budget. Mr. Bailey noted it should not have any effect on the coming year's budget. Mr. Miller stated he would like a decision from the Federal Energy Regulatory Commission (FERC). He commented the City has been dealing with this for over 10 years. Mr. Behmer stated staff monitors FERC regularly waiting for a decision but does not know when a decision will be made.

Mr. Miller pointed out the City had the wettest weather in its history from August 2018 until April 2019 and SRU is still operating without fail. Mr. Behmer added the sedimentation issue is never going away and it comes with increased risk of flooding. Mr. Miller suggested continuing to look at this and staying abreast of what is taking place, but he added it is not so drastic that a decision has to be made in six weeks on the issue. Mr. Behmer indicated staff is heavily engaged with the consultant and sufficient reserves are in place to work on a design if something should happen. He commented the numbers have been updated, and staff is waiting on a decision from FERC.

Mayor Heggins asked if it will be more expensive to address what does happen rather than dealing with what staff can predict. She questioned what the numbers would look like if the pump station goes down because there would be other issues to deal with on top of getting the station replaced. Mr. Behmer noted staff has contingency plans in place that have been used in the past. He added the situation needs to be resolved and staff has the best plan in place to relocate the station. He pointed out Cube Hydro has offered a different plan that staff does not agree with and FERC has to decide how to proceed.

Councilmember Alexander asked what the City will do if FERC agrees with Cube Hydro. City Attorney Graham Corriher stated the City would need to contact Attorney Randy Tinsley to discuss the City's options. He added if FERC makes a decision in favor of the City staff will need to figure out what the City's options are. He indicated the City received an update several months ago, and he does not believe there will be any additional information in the time frame prior to adoption of the budget. Mr. Miller noted Mr. Bailey and Mr. Behmer have dealt with water and sewer issues longer than he has and if they determined there is an imminent threat he is ready to act. He cautioned the City needs to be prepared, but right now the best course of action is to the

let the court process, or FERC process, come to a conclusion unless the situation should change. Mr. Bailey agreed, and he noted there is too much money involved and the potential impact to customer rates not to get the money the City is entitled to through Cube Hydro. He added he would prefer to start as soon as possible, but given the situation it would be more prudent to wait and let it play out. He commented the City is closer to a resolution than it was a few years ago. Mr. Post noted it is hard to plan for a catastrophe. Mayor Heggins added when disaster strikes the most vulnerable communities suffer the most. She asked how long the issue has been going on. Mr. Behmer stated the issue has been going on since the Alcoa relicensing in 2006.

Councilmember Alexander asked Mr. Behmer if he is optimistic the City can handle whatever happens and has a plan in place for a temporary fix. Mr. Behmer stated the City has purchased a diesel pump and can bring in additional diesel pumps if needed. He added the City has backups and an inter-connection with the City of Statesville. He stated there is redundancy regarding water storage, and the City will not run out of water.

Mayor Heggins asked about the financial impact of the redundancy plan and how long the City would have to rely on it if there was an emergency. Mr. Behmer stated he did not have the information with him. Mr. Miller pointed out it will be more expensive for the City to pay for the entire project than if it has a partner. He noted the City does not have to make a decision today it may have to make the decision at a later date but not at this time. He added he is comfortable relying on Mr. Behmer's expertise to tell him when it is the right time. Mr. Behmer stated he would like to have a resolution, and he pointed out it has been six months since the final comments were submitted. He added he is hopeful to hear something positive in the next six months and if not the City will take the appropriate action based on guidance from its environmental counsel.

Mayor Heggins suggested the City put a six-month cap on the situation. Councilmember Sheffield questioned what the City will do in six months. Mayor Heggins noted if a decision is not made in six months Council needs to have a serious discussion regarding what it will need to do to move forward in a substantial way. Mr. Bailey suggested having those conversations in closed session with the City Attorney.

Mayor Pro Tem Post stated building a new pump station is at least a three year process, and he pointed out the sediment is not going away. He asked about the legal risk if the City began the process to address a problem it knows will not go away. He then asked why and what the City would lose if it began the process. Mr. Corriher stated it would be more appropriate question for Mr. Tinsley to answer because it involves federal administrative law, environmental law, and federal district court. He added he would be happy to meet with Mr. Tinsley and Mr. Behmer and then provide an update to Council.

Mr. Martin pointed out the City is managing and administering a regional water and wastewater program. He indicated the total cost of the 10-year CIP is approximately \$119 million and beyond year 10 includes an additional \$42 million. He noted the CIP also includes seven debt events. He explained the annual capital outlay is based on the CIP averages of approximately \$4 to \$5 million per year in cash for capital. He indicated the total debt for the numbers mentioned is \$69 million. He commented it is a substantial program and every year the City gets better with

the CIP. He indicated SRU began an asset management program two years ago and is better able to predict and anticipate replacements and repairs.

Mr. Martin commented it is difficult to manage what is underground and staff must assess the high risk issues in the system and determine how to systematically replace assets that cannot be seen to inspect. He pointed out next year's information will be more complete and the cash flow is beginning to level out. He indicated the debt service has increased because of the high dollar projects that are included in the CIP but he noted it is very manageable.

Mr. Martin pointed out the Water Sewer Enterprise Fund is more capital intensive than the General Fund. He explained the General Fund addresses replacements, repairs and things related to operational programs and the Water Sewer Enterprise Fund is all hardware. He pointed out the system is regional and growing and changes and additions are required. He noted SRU is looking after more infrastructure than it was 10 years ago. He stated it is important to stay ahead of depreciation and to manage the debt margin anticipating and replacing old debt with new debt so the debt margin never gets to the point where rates have to be raised radically to fund a major project. He noted there have been many improvements in the fund over the last three to four years from the financial management standpoint.

Mr. Martin pointed out the summary sheet recommends a 2% increase in rates, half of which will cover inflation and the other half is for the CIP to replace and refurbish assets on the systematic approach that includes asset management planning. Mr. Post referred to the proposed 2% rate increase, and he noted there is approximately a 2.2% inflation rate and if 1% of the proposed rate increase is for inflation he questioned if the City will constantly stay behind. Mr. Martin explained the City is dealing with averages over a 10-year period.

Mayor Pro Tem Post stated the City is paying approximately 20% of its revenue into debt service, and he asked if 20% of the revenue stream going toward debt service is a normal amount to pay. Mr. Martin stated a system that is behind the curve on replacements and repairs can have a 10-15% higher percentage of its revenue going to debt service. He pointed out the City's infrastructure is much better than many systems. He noted there are major wastewater treatment plant projects in other communities that are fully depreciated and are 50 years old with the replacement costs at approximately \$50 million. Mr. Post commented the CIP does not show depreciation charges but the number is included somewhere. Mr. Martin agreed and he added 20% is a healthy number. Mr. Miller pointed out the City is operating more effectively which is why it can maintain the 2% rate increase. Mr. Bailey noted automated meter reading helped to improve efficiencies. Mr. Behmer pointed out as replacements are made staff will look for more efficient upgrades.

Mr. Martin noted the Advanced Metering Infrastructure (AMI) system gained \$.750 million in new revenue cash flow annually. Mr. Behmer added the goal is to increase efficiency and remain competitive in the region. He pointed out others have delayed their expenditures and are paying for it now with major rate increases.

Councilmember Alexander stated state legislators are working on money for wastewater around the state for aging 50-year old systems. She asked if the City will be able to take advantage

of any grant funding from the state. Mr. Behmer noted several proposed bills are currently being debated. He noted grant funding usually goes back to rates and there is threshold regarding where the City fits in among the region. He commented the City's average rate is less than the state average which may not be beneficial when applying for grant funding.

Ms. Moore stated the annual principal and interest payments going into next year's budget are \$3.9 million. She added five fiscal years ago in 2015 the principal and interest payments were \$6.29 million and going into fiscal year 2020-2021 the debt payments will be \$3.2 million. She added it is a good time for Council to consider debt issuance in the next fiscal year because the City has approximately \$700,000 in debt that will roll off. Mr. Miller pointed out that is before any decisions Council will make in its regular meeting. Ms. Moore indicated the total outstanding debt going into next year's budget is \$21.1 million in the Water and Sewer Fund. Mr. Post noted most of the debt service payment will be repayment on the \$69 million the City will borrow to repair and replace the systems and stay ahead of the curve. He commented the majority of the debt service will be related to new rather than 50-year old projects.

Mr. Martin stated in the financial analysis for this year SRU resources were set aside to build up the reserves to offset future debt for nutrient removal and the contingencies that it presents. He added the numbers are so large it was proposed to build the capital reserve aspect of the budget annually to better manage the larger amounts. He pointed out managing the reserves will be another variable that will be incorporated into the planning. Ms. Alexander stated \$480,000 is being put in this year to build the capital reserve. Mr. Martin stated next year \$1 million will be set aside and it will increase as the budget grows. Mr. Miller commented it is a balance and not a contribution. Mr. Martin agreed, and he pointed out the cumulative balance is listed on the CIP. Ms. Alexander commented it is essentially a savings account, and she asked if the money is drawing interest. Mr. Martin agreed, and he explained the money is managed along with the Fund Balance and the accounts the Finance Department oversees. Ms. Alexander indicated the interest is not taken into consideration only the contributions are listed on the CIP. Mr. Martin agreed.

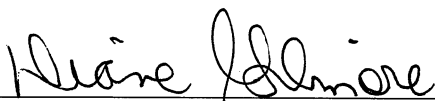
Mayor Heggins thanked Mr. Martin for his presentation. Mayor Pro Tem Post commended Mr. Behmer for all he does for SRU.

ADJOURNMENT

Motion to adjourn the meeting was made by Councilmember Post. All Council members in attendance agreed unanimously to adjourn. The meeting was adjourned at 3:32 p.m.



Al Heggins, Mayor



Diane Gilmore, City Clerk